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FM SECSTATE WASHDC

TO USMISSION GENEVA

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FOLLOWING TEL SENT ACTION SECSTATE FROM LAGOS APRIL 01:

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E.O. 11652: N/A

TAGS: EFIN, NI

SUBJECT: 1976-77 BUDGET SPEECH

1. SUMMARY. HEAD OF STATE LT. GENERAL OBASANJO DELIVERED ANNUAL FMG BUDGET SPEECH MARCH 31. HIGHLIGHTS OF SPEECH INCLUDED ADMISSION THAT NIGERIA'S ECONOMIC PERFORMANCE IN FISCAL 1975/76 WAS POOR. RATE OF ECONOMIC GROWTH DROPPED SHARPLY, BALANCE OF PAYMENTS SLUMPED INTO DEFICIT, AND INFLATION REMAINED UNCHECKED. TO REMEDY DOWNTURN, SOME OF MEASURES OBASANJO ANNOUNCED FOLLOW: 1) TOTAL GOVERNMENT EXPENDITURES FISCAL 1976/77 LIMITED TO ABOUT NAIRA 6.9 BILLION; 2) REORDERING OF PRIORITIES UNDER THIRD NATIONAL DEVELOPMENT PLAN DOWNGRADING QTE PRESTIGE PROJECTS UNQTE AND PLACING MORE EMPHASIS ON HOUSING, AGRICULTURE, AND HEALTH; 3) FOREIGN PARTICIPATION IN NIGERIA'S ECONOMIC GROWTH WILL REMAIN IMPORTANT ALTHOUGH NIGERIA WILL CONTINUE INDIGENIZATION PROGRAM; 4) TIGHTENING OF REGULATIONS IN COMMERCIAL PAYMENTS; 5) CONTINUED DIVERSIFICATION OF EXTERNAL RESERVES; 6) INCREASED REGULATION OF BANKING SECTOR, ESPECIALLY LIMITED OFFICIAL USE

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MERCHANT BANKS: 7) TEMPORARY BAN ON CERTAIN CONSUMER GOODS:

8) INCREASED ASSISTANCE TO QTE LIBERATION UNQTE MOVEMENTS IN AFRICA. PRESS STATEMENT TODAY BY FEDERAL COMMISSIONER FOR FINANCE EXPECTED TO FILL IN DETAILS. END SUMMARY.

2. FISCAL 1976/77 BUDGET.

TOTAL GOVERNMENT CURRENT AND CAPITAL EXPENDITURES DURING 1976/77 FISCAL YEARS IS LIMITED TO SLIGHTLY OVER NAIRA 6.9 BILLION. OF THIS, NAIRA 1.4 BILLION IN STATUTORY APPROPRIATIONS AND NAIRA 61.5 MILLION IN NON-STATUTORY ALLOCATION WILL GO TO STATE GOVERNMENTS. GROSS REVENUE AVAILABLE TO FMG ESTIMATED AT NAIRA 5.7 BILLION. BALANCE EXPENDITURE FUNDING WILL COME FROM RESERVES.

3. BALANCE OF PAYMENTS

NIGERIA'S BALANCE OF PAYMENTS POSITION HAS DETRIORATED. THE NAIRA 2.7 BILLION TRADE SURPLUS IN FISCAL 1974/75 CRASHED TO A NAIRA 125 MILLION DEFICIT IN FISCAL 1975/76. OBASANJO BLAMED REDUCED PETROLEUM AND AGRICULTURAL EXPORTS AS WELL AS SKY-ROCKETING IMPORTS FOR THE TRADE DEFICIT. SINCE THE TRADE ACCOUNT WAS UNABLE TO COVER TRADITIONAL DEFICITS IN THE SERVICES AND CAPITAL ACCOUNTS, NIGERIA'S BALANCE OF PAYMENTS DEFICIT WAS ABOUT NAIRA 1.0 BILLION WHICH HAS REDUCED EXTERNAL RESERVES FROM NAIRA 4.1 BILLION IN FISCAL 1974/75 TO NAIRA 3.1 BILLION FOR FISCAL 1975/76.

4. THIRD NATIONAL DEVELOPMENT PLAN

OBASANJO STATE THAT THE FMG HAS MADE A COMPREHENSIVE REVIEW OF THE PLAN RESULTING IN A REORDERING OF PRIORITIES WHICH BETTER REFLECT THE QTE REALITIES AND ASPIRATIONS OF THE NATION UNQTE. ALTHOUGH QTE PRESTIGE PROJECTS UNQTE HAVE BEEN TRIMMED DOWN OR ELIMINATED, PROJECTS IN THE HOUSING, HEALTH, AND AGRICULTURE SECTORS WILL BE GIVEN MORE EMPHASIS. EXAMPLES INCLUDE INCREASING THE FEDERAL GOVERNMENT'S HOUSING PROGRAM FROM 60,000 TO 200,000 UNITS BY 1980. FEDERAL OUTLAYS IN THE HEALTH SECTOR WILL INCREASE FROM NAIRA 314 MILLION TO NAIRA 1.7 BILLION FOR THE SAME PERIOD. INCLUDED IN THE QTE BASIC HEALTH SERVICE SCHEME UNQTE IS THE ESTABLISHMENT OF 285 BASIC HEALTH UNITS IN THE LIMITED OFFICIAL USE

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COUNTRY. REGARDING AGRICULTURE, THE GOVERNMENT INTENDS TO LAUNCH QTE OPERATION FEED THE NATION UNQTE TO INCREASE FOOD PRODUCTION. A CASH CROPS REHABILITATION STUDY HAS ALSO BEEN COMMISSIONED TO TURN AROUND SAGGING AGRICULTURAL EXPORTS. THE PROGRAM WILL INCLUDE THE EXAMINATION OF THE PRESENT MARKETING BOARD SYSTEM TO MAXIMIZE BOTH EFFICIENCY AND RETURN TO THE FARMER.

5. FOREIGN PARTICIPATION IN THE DEVELOPMENT PLAN

OBASANJO ANNOUNCED NO MAJOR CHANGES IN FOREIGN ECONOMIC PARTICIPATION IN NIGERIA'S DEVELOPMENT PLANNING. HE VIEWS THE FOREIGN ROLE AS ONE OF A QTE TRANSFER OF TECHNOLOGY UNQTE WHICH QTE TAKES PLACE THROUGH MUTUAL PARTNERSHIPS WITH FOREIGN, PRIVATE, AND PUBLIC ENTERPRISES UNQTE. ACCORDING TO OBASANJO QTE ADEQUATE INCENTIVES UNQTE WILL CONTINUE TO BE PROVIDED. IN ADDITION, A QTE BUSINESS ADVISORY COMMITTEE UNQTE HAS BEEN SET UP TO FACILITATE GRANTING OF NECESSARY APPROVALS TO ENCOURAGE ESTABLISHMENT OF PRIVATE INDUSTRIES IN NIGERIA UNQTE. HOWEVER, QTE THE CURRENT PROGRAM OF INDIGENIZATION WILL BE CONTINUED SO THAT THE SPIRIT OF THE INDIGENIZATION DECREE AND ITS OBJECTIVES CAN BE FULLY REALIZED UNQTE.

6. COMMERCIAL PAYMENTS

PAYMENTS FOR IMPORTS AGAINST SHIPPING DOCUMENTS AND PREPAYMENT ON LETTER OF CREDIT BASIS ALLOWED ONLY IF CERTIFICATES OF CLEARANCE OBTAINED FROM NIGERIAN PORTS AUTHORITY OR AIRPORT AUTHORITY. ALSO PREPAYMENT ON LETTER OF CREDIT ALLOWED ONLY IF FULL PAYMENT HAS BEEN MADE IN LOCAL CURRENCY.

7. FOREIGN EXCHANGE

DIVERSIFICATION OF EXTERNAL RESERVES WILL CONTINUE.

8. MONEY AND BANKING

OBASANJO SAID THE UNREGULATED EXPANSION OF COMMERCIAL BANK CREDIT WAS A MAJOR FACTOR CONTRIBUTING TO NIGERIA'S HIGH INFLATION RATE. TO BRING BANK CREDIT UNDER CONTROL, CEILINGS WILL BE IMPOSED ON LOANS TO THE PRIVATE SECTOR, AGRICULTURE AND LIMITED OFFICIAL USE

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HOUSING/LAND DEVELOPMENT EXCEPTED. A CREDIT GUARANTEE SCHEME TO INCREASE FUNDS TO THE AGRICULTURAL SECTOR ALSO WILL BE PUT INTO EFFECT. TO STIMULATE INVESTMENT IN THE MORE QTE PRODUCTIVE UNQTE SECTORS OF THE ECONOMY, THE FMG HAS APPROVED A NEW INTEREST RATE STRUCTURE RANGING FROM 6 TO 10 PERCENT WITH QTE PRODUCTIVE UNQTE AREAS ATTRACTING AN INTEREST RATE NOT EXCEEDING 8 PERCENT. IN ORDER TO REGULATE THE OPERATIONS OF PRIVATE MERCHANT BANKS, THE CENTRAL BANK NOW QTE WILL PRESCRIBE THE COMPOSITION OF THEIR LOAN PORTFOLIOS IN TERMS OF MATURITY AND TYPES OF PROJECTS UNQTE. FINALLY, A QTE FINANCIAL SYSTEM REVIEW COMMITTEE UNQTE HAS BEEN FORMED TO ADVISE THE GOVERNMENT CONCERNING LONG RANGE BANKING POLICY.

9. OTHER MEASURES

OBASANJO IDENTIFIED INCREASED COSTS OF FOOD, HOUSING, AND TRANSPORTATION AS THE MAIN FACTORS RESPONSIBLE FOR THE HIGH RATE OF INFLATION AND ANNOUNCED THAT MEASURES ARE BEING TAKEN TO DAMPEN PRICE INCREASES IN THESE SECTORS. EXAMPLES INCLUDE GOVERNMENT ASSISTANCE FOR PRIVATE DEVELOPMENT OF HOUSING IF DEVELOPERS AGREE TO THE GOVERNMENT'S INVOLVEMENT IN FIXING RENTS FOR UNITS BUILT. THE ABOLITION OF IMPORT DUTY ON CEMENT WILL BE MAINTAINED: IMPORT DUTIES ON OTHER BUILDING MATERIALS AS WELL AS RAW MATERIALS USED IN LOCAL MANUFACTURE WILL BE REDUCED. THE QUOTA RESTRICTION ON IMPORTED CARS UNDER 2000 CC WILL BE MAINTAINED, BUT RESTRICTIONS ON MEDIUM SIZE CARS WILL BE EASED TO AVOID POSSIBLE SHORTAGES. TO HELP REDUCE PORT CONGESTION, THE IMPORTATION OF A NUMBER OF GOODS HAS BEEN BANNED FOR SIX MONTHS AFTER WHICH THE POLICY WILL BE REVIEWED. OBASANJO HOPES THAT THE BAN WILL INDUCE LOCAL MANUFACTURERS TO BEGIN PRODUCTION OF GOODS AFFECTED BY THE BAN. BUSINESS PROFITS OVER NAIRA 6000 WILL BE TAXED AT 45 PERCENT.

10. PUBLIC POLICY

A NATIONAL POLICY DEVELOPMENT CENTER WILL BE ESTABLISHED TO ASSIST IN RE-APPRAISING EXISTING POLICIES AND FORMULATING NEW ONES. ALSO, THE GOVERNMENT HAS ESTABLISHED A PRICES, INCOMES AND PRODUCTIVITY BOARD TO BRING INCOMES AND PRICE LEVELS INTO BALANCE. THE FEDERAL GOVERNMENT ALSO PLANS A QTE LEGAL AID SCHEME UNQTE TO PROVIDE FREE LEGAL ASSISTANCE TO THE POOR.

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QQM FOREIGN POLICY

FMG WILL INCREASE QTE MATERIAL, FINANCIAL, AND OTHER ASSISTANCE TO LIBERATION MOVEMENTS IN AFRICA. WE WILL HELP THOSE AFRICAN COUNTRIES WHOSE INDEPENDENCE AND SOVEREIGNTY ARE STILL THREATENED BY RACIST AND MINORITY REGIMES UNQTE.

12. OBASANJO'S BUDGET SPEEL WILL BE SENT UNDER COVER OF AIRGRAM. SPEECH LEFT A LOT OF IMPORTANT DETAILS UNMENTIONED, E.G., WHAT COMMODITIES ARE ON THE LIST OF IMPORTED GOODS TO BE BANNED FOR SIX MONTHS. HOWEVER, EXPECT FEDERAL COMMISSION FOR FINANCE A.E. EKUKINAM TO FILL IN MANY OF GAPS. BUDGET ITSELF WILL BE POUCHED ASAP.

13. COMMENTS FOLLOW SEPTTEL. EASUM UNQUOTE SISCO

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